

The crises of the late nineteenth century and the winnowing of the houses

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The second half of the nineteenth century was punctuated by financial crises that affected the Geneva financial centre. The Franco-Prussian War of 1870–1871 disrupted the markets and relations with France. The crash of 1873, which began in Vienna and Berlin, brought on a long depression in Europe and America.¹ The collapse of the Union générale, a Catholic bank based in Lyon and Paris, in 1882 struck the Lyon financial centre, with which Geneva maintained close ties.² The Baring crisis of 1890, linked to Argentina's difficulties, shook the City of London.³

These crises winnowed the field of institutions. Several Geneva joint-stock banks engaged in risky operations suffered serious losses, were absorbed or disappeared. The private banking houses, more cautious and less exposed to large industrial and speculative ventures, withstood the storms better, and their reputation for soundness emerged strengthened.

This process of selection helped to shape the image of Geneva private banking: old, family-owned, prudent houses that came through crises while preserving their clients' wealth. This image, which rests on a historical reality, would become a powerful commercial argument. It also involves a degree of simplification, since private houses disappeared as well, and prudence was not always the rule.

The crises of the late nineteenth century also revealed the limits of a system without banking supervision. The depositors of failed banks suffered losses, and the authorities had no instruments for preventing such failures or limiting their effects. The debate on banking regulation, which would culminate in 1934, began in this period. *Le Temps* recalls that the 1933–1934 bill took up an idea already formulated in 1916, namely the introduction of auditors.⁴

1 Notes

1. Wikipedia (fr), “Crise bancaire de mai 1873”: the Vienna stock exchange reacted on 8 and 9 May 1873 to the failure of several hundred Austrian banks; panic of 18 September 1873 in New York after the closure of Jay Cooke & Co (Wall Street closed for ten days); beginning of the “Long Depression” (1873–1896), a period of deflation and weak growth. ↩
2. Wikipedia (en), “Union Générale”: bank founded in Lyon in 1875 by Catholic monarchists, taken over in 1878 by Paul Eugène Bontoux (capital raised to 50 million francs); collapse in the crash of January 1882 (19 January), causing the bankruptcy of many Lyon stockbrokers and repercussions on the Paris Bourse; Bontoux sentenced to five years’ imprisonment. ↩
3. Bank Underground (Bank of England), “Rescuing a SIFI, Halting a Panic: the Barings Crisis of 1890” (10 February 2016): doubtful Argentine securities of around £8.3 million on Barings’ balance sheet; guarantee fund of £17.1 million assembled by the Bank of England (announced on 15 November 1890); split between a recapitalised “good bank”, Baring Brothers & Co. Ltd, and a liquidation vehicle managed by the Bank of England. ↩
4. “1934 : le secret bancaire entre dans la loi”, Le Temps, 4 April 2009. ↩

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